

**Government Guarantees under the Approved Organizations and Authorities Loans (Government Guarantee) Act in respect of the issuance of Infrastructure Bonds by National Road Operating and Construction Company (NROCC) in the amount of US\$75 million to finance Phase 1 of the Highway 2000 Project.**

**Issue**

1. The Honourable House of Representatives is invited to consider the request for government guarantees under the provision of the Approved Organizations and Authorities Loans (Government Guarantee) Act of an interim financing facility and a long term bond issue (to take away the interim facility) by NROCC in the amount of US\$75 million as follows:
  - (a) The issuance of a Government of Jamaica Guarantee to secure interim financing of US\$40 million forming part of the amount allocated to the issuance of an externally sourced US\$75 million Bond for the financing of Phase1 of Highway2000
  - (b) The issuance of a Government of Jamaica Guarantee for the amount of US\$75 million (which will supersede and render null and void the Guarantee issued for the interim financing of US\$40 million) to guarantee the issuance of Bonds totaling US\$75 million

**Background**

2. The Honourable House is asked to recall that approval was sought and obtained in June 2001 for the financing of Phase1 of Highway 2000 via:
  - (a) the issuance of Infrastructure Bonds to a maximum of US\$141 million (with a contemplated US\$75 million to be had from the overseas market and US\$66million from the domestic market) on terms and conditions to be agreed with the Ministry of Finance and Planning;
  - (b) the issuance of a Guarantee by the Government of Jamaica (GOJ)for the Infrastructure Bonds to a value of US\$141 million (or the equivalent in Jamaican dollars to the extent feasible).
3. The GOJ's proposed contribution to the cost of Highway 2000 is estimated at US\$150million. Of this amount US\$107 million will be loaned to the Developer for construction of Phase 1 and the balance will be used to finance the administrative, finance and development costs (inclusive of land acquisition) of the NROCC relating to the project.

### **Purpose of Facility**

4. The Honourable House of Representatives will also recall that as part of this financing in December 2001 NROCC successfully raised an amount of J\$3.6 billion by way of a local private placement of an inflation-indexed 30-year Bond which targeted long-term institutional investors. This submission relates to the raising of US\$75 million externally sourced financing of the Project.

### **Status Report on the Project**

5. Construction of Phase 1 work started in June 2002 and is expected to be completed by August 2006. All of the land required for the first section has been acquired. Most of the land required for the second section has also been acquired and there is no projected delay to construction due to land acquisition.
6. In the third section, squatters along the Portmore Causeway will have to be removed. In that respect, discussions have been taking place among the three institutions namely Ministry of Agriculture, National Housing Development Corporation and Portmore Foundation Limited an NGO consisting of all the Citizens Associations.
7. Phase 1 of the project has been divided into three sub-sections for the purposes of financing. The sections and the apportioning of funding sources are as follows:

<u>US \$ million</u>			
<u>Phase</u>	<u>Developer</u>	<u>Grantor</u>	<u>Total</u>
Early Project	65.0	72.0	137.0
1 A	65.0	-	65.0
1 B	<u>153.0</u>	<u>35.0</u>	<u>188.0</u>
	<u>283.0</u>	<u>107.0</u>	<u>390.0</u>

8. Following is the preferred bidder's summary for the financing programme for Phase 1 of the project based on Year 2001 figures:

### **Preferred Bidder's Project cost for Phase I of Highway 2000**

<u>Phase I(a) &amp; I(b)</u>	
<u>US\$ Million</u>	
Construction Costs	276.1
Development Costs	41.4
Financing Costs	<u>72.5</u>

**Preferred Bidder's Financing Programme for Phase I of Highway 2000**

<b><u>Phase IA &amp; 1B</u></b>	<b><u>Total</u></b>		
		<b><u>( US\$ Millions)</u></b>	<b><u>%</u></b>
Concessionaire's Equity		41	10.5
ECA Debt		60	15.0
Commercial Debt		12	3.0
IADB Loan A/B		130	3.3
Operating Cash Flow		<u>40</u>	<u>10.2</u>
 Total Concessionaire's Contribution		 283	 72.5
 Government Procured Debt		 87	 22.3
Government Subordinated Debt		<u>20</u>	<u>5.2</u>
 Total Government Supported Debt		 <u>107</u>	 <u>27.5</u>
 <b>Grand Totals:</b>		 <b>390</b>	 <b>100.0</b>

9. The Developer (GOJ) has provided the US\$65 million for the Early Project. For Phase 1 A, which covers the Portmore Causeway and the Dyke Road and Phase 1 B, which covers Sandy Bay to Williamsfield, the Developer is seeking funding from the private sector window of the Inter American Development Bank. It is expected that the funding for both the Developer and the Grantor will be in place by June 2003.
10. Approvals for the implementation of the project have to be given by three entities, National Road Operating and Construction Company, National Works Agency and National Environmental Planning Agency. Environmental approval from NEPA has been given for all of the Early Project i.e. from Mandela Highway to Sandy Bay. The Developer is preparing the Environmental Impact Assessment for Phase 1A i.e. the Portmore Causeway and the Dyke Road. It is expected that approvals will be in place by March 2003.
11. Approval of Outline Design for all sections of Phase 1 has been given by both NROCC and NWA, that for detailed design has been given for Bushy Park to Sandy Bay. The approvals for the rest of the Early Project and Phase 1 A are expected in the near term.

**Insurance Policy**

12. NROCC, through its local financial advisors Pricewaterhouse Coopers (PWC) has been in discussion with a number of investment bankers namely, UBS Warburg, ABN AMRO, Bear Stearns et al, over the past six months, with a view to procuring the remaining balance of

US\$75 million of the Government Supported debt externally mainly from its capital market investors.

13. NROCC with its financial advisors approached the Overseas Private Investment Corporation (OPIC), an agency of the Government of the United States of America to access a new insurance product which will enhance the credit rating of instruments bought by US capital market investors.
14. The OPIC coverage will enable financing of the project to be at an interest rate lower than that which would apply, and will hopefully result in an investment grade instrument being issued based on a rating currently being undertaken by Standard and Poor's
15. On October 30 2002 the Board of Directors of OPIC approved by notational vote up to US\$75 million in OPIC political risk insurance for the partial financing of Phase 1 of the Highway 2000 Project.
16. OPIC will provide non-honouring coverage for the capital market investors, specifically for the repudiation by the Government of Jamaica of its guarantee to support NROCC's bond offering. OPIC's contract will provide an assurance of debt service payments to the bondholders (up to the maximum amount of US\$75 million the OPIC coverage) by the GOJ, under its guaranty, in the event of NROCC's failure to service the bonds, Government's failure to honour its guarantee and a subsequent arbitration award against the GOJ.
17. In consultation with the Ministry of Finance and Planning, ABN AMRO was selected as the preferred investment banker for this transaction. ABN AMRO has submitted a term sheet which principal features are as follows:

18. Bridge Facility:

Loan Amount:	US\$40 million	
Tenor:	3 to 12 months	
Interest Rate:	Libor Flat (Currently approx. 1.4%) for first six months and increases by 1.5% per annum in month seven and 0.5% per annum per month until month twelve)	
All in Cost Inclusive of Interest & Fees:	<u>6Mnths</u> 5.6%p.a.	<u>12 Mnths</u> 6.0% p.a.
Repayment of Prin. & Int.:	Bullet form at or before 360 days Maturity	
Security:	Parliamentary Guarantee	

19. The purpose of the interim financing is two fold:

- (a) It will facilitate the early repayment to the Development Bank of Jamaica of an amount of US\$20million that was used to finance developmental costs on Highway 2000 on behalf of NROCC.

(b) It will put the project in funds at an earlier point in time to facilitate the continued fast track on which work is currently progressing pending the finalisation of the Bond Issue.

20. The Bridge Financing will be taken out by the US\$75 million long-term bond issue at which time the Parliamentary Guarantee issued to cover the Bridge Financing will fall away.

21. Long-Term Bond :

Loan Amount:	US\$75 million
Tenor:	Up to 20 years (3 years moratorium on Principal)
Benchmark Interest Rate:	US Treasury (Currently approx. 4.1%)

Margin:	<u>S&amp;P Rating</u>	<u>Margin</u>
(Subject to S&P Rating)	BBB+	3.25%-4.00%
	A	2.00%-2.50%
	AA	1.25%-1.75%
	AA+	1.125% – 1.625%

<b>All- in- Cost:</b>	<u>S&amp;P Rating</u>	<u>Rate</u>
(Subject to S&P Rating.	BBB+	10.06%
Calculation done using	A	8.68%
The mid-point of the	AA	7.93%
margin quoted above)	AA+	7.80%

Security:	Parliamentary Guarantee
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Repayment:

Principal:	Repayable up to 20 years with 50% repayable by Year 13
Interest:	Payable Semi-Annually in arrears

22. There will be a 3 year moratorium on principal with repayment commencing in year 2006 when it is anticipated that NROCC will commence receiving toll revenues from Trans Jamaica Highway sufficient to facilitate the principal repayments.

**NROCC'S Ability to Service Debt**

23. NROCC's cash flow projections supports the view that the projected allocation of toll revenues to NROCC by the developer will be adequate to meet the debt servicing such that the project will not become a direct charge on the Central Government. The Debt servicing requirement and NROCC's cash flow projections are summarised in the following table:

### **NROCC'S PRELIMINARY CASH FLOW**

Years	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
NROCC's CFP before Debt Svc. (\$million)	71.9	47.6	33.4	26.9	21.4	18.5	18.4	19.7	31.4	46	69	89.6	118
Debt Service (LPP & OPP) (\$million)	7.1	9.8	9.8	10.7	10.7	10.5	10.4	10.3	11.7	11.5	18.5	20	18.9
Projected Surplus (\$million)	64.8	37.8	23.7	16.1	10.8	7.9	7.9	9.3	19.7	34.5	50.5	69.6	99.6
Debt Service Coverage Ratio	10.14	4.86	3.41	2.5	2.01	1.75	1.76	1.89	2.68	3.99	3.73	4.47	6.26

\*CFP - Cash Flow Projections

\*LPP - Local Private Placement

\*OPP - Overseas Private Placement

### **Recommendation**

24. The Honourable House of Representatives is accordingly asked to approve the issuance of two Government of Jamaica Guarantees under the provisions of the Approved Organizations and Authorities Loans (Government Guarantee) Act in respect of the issue of externally sourced bonds by NROCC in the amount of US\$75 million as follows:

- (a) GOJ Guarantee to secure interim financing of US\$40 million forming part of the amount allocated to the issuance of Infrastructure Bonds
- (b) GOJ Guarantee to secure funding for long term bond issue of US\$75 million, (which will supersede and render null and void the Parliamentary guarantee issued for the interim financing of US\$40 million) to guarantee the issuance of Infrastructure Bonds.
- (c) I will move the necessary Resolution at a later date.

Omar Davies M.P.  
Minister of Finance & Planning  
21 January 2003